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C O N F I D E N T I A L SECTION 01 OF 03 KABUL 000359

SIPDIS

DEPARTMENT FOR SA/FO, SA/A, EB/OTP, EB/CBA
NSC FOR AHARRIMAN, AMEND
CENTCOM FOR CG CFC-A
TREASURY FOR PARAMESWARAN
COMMERCE FOR AADLER
TRANSPORTATION FOR DMODESITT
FAA FOR JHANCOCK AND TMARZIN

E.O. 12958: DECL: 01/24/2016

TAGS: [FAIR](#) [ECON](#) [AF](#)

SUBJECT: CIV AIR SHAKE UP

REF: A. 2005 KABUL 4701

- [1](#)B. 2005 KABUL 4140
- [1](#)C. 2005 KABUL 4327
- [1](#)D. 2005 KABUL 5033
- [1](#)E. 2005 KABUL 5294

Classified by: Charge Richard Norland. Reasons 1.4 (b, d).

Summary

[1](#)1. (C) Lufthansa Consulting's team at Afghan state-owned flag carrier Ariana fills key senior management positions at the airline. Lufthansa,s earlier announced resignation, made in response to a series of questionable procurement and aircraft lease contracts entered into by Ariana,s Preiden over Lufthansa's objections, has been postponed until the end of February. Minister of Transport Qasimi and Ariana President Atash may also depart in the coming months. This leadership vacuum would send Ariana on an even faster downward spiral and would endanger recently signed Boeing aircraft lease and purchase deals. Post is actively monitoring the situation and will move quickly to steer any new management at the Ministry of Transport and Ariana on the right course. End summary.

Lufthansa's Tenure

[1](#)2. (SBU) Lufthansa Consulting is an independent group subsidiary of Lufthansa German Airlines with extensive experience in assisting national airlines in rationalizing and upgrading their operations. As noted Ref A, the Lufthansa Consulting team, which began working at Ariana Airlines two years ago, tendered its resignation effective January 15, 2006. Their resignation is in reaction to a series of highly risky decisions made by Ariana's President Nadir Atash over Lufthansa's objections. Minister of Transportation Enayatullah Qasimi recently met with Lufthansa Consulting and asked for additional time to address Lufthansa's concerns. Lufthansa Consulting agreed to stay on through the end of February. Lufthansa views this request for an extension as a ploy to ensure that Lufthansa will oversee the final leg of this year's Hajj operations (which will transport over 25,000 pilgrims back from Saudi Arabia in the next six weeks).

The Qasimi Question

[1](#)3. (C) According to Lufthansa Consulting, persistent Kabul donor and NGO community rumors that Minister Qasimi may not survive a Cabinet shuffle are credible. Embassy officers have also noticed erratic shifts in the Minister's confidence, ranging from assertions that his ascendant Ministry of Transport would soon absorb the Ministry of Public Works, transportation infrastructure (roads and regional airports) portfolio to an unwillingness to commit scarce Kabul International Airport apron space to base INL,s helicopter operations (Ref E). Post has been hearing reports that there will be a post-London Conference Cabinet shuffle, and recent press reports indicate that Parliament intends to debate its approval of Cabinet ministers in February.

Atash's Other Ambitions

[1](#)4. (SBU) Ariana President Atash has observed to Embassy officers in the past that he serves as Ariana's president at Minister Qasimi's behest. Lufthansa Consulting confirms that if Minister Qasimi leaves, so will Atash. (Note: Atash is a businessman at heart and receives little monetary benefit from his position at Ariana. In recent meetings with Embassy

staff, Atash has focused more and more on his idea for creating a private Afghan air cargo company. He is actively seeking investors, and Post believes that it is likely Atash will quit Ariana once he has lined up the initial capital investment for this air cargo venture whether Minister Qasimi remains in place or not. End note.) According to the Lufthansa Consultants, if they leave, Ariana will fail within a year because of Atash's risky financial decisions including a financially questionable lease of two Boeing 757s (see below), other wet-lease contracts based on unrealistic load factors (Ref A), and procurement of an expensive accounting system that exceeds Ariana's needs (Ref D).

A Blow to Boeing?

15. (C) Ariana has not yet taken delivery of the leased Boeing 757s (Ref D) originally planned for use during the December 2005-February 2006 Hajj flights. Negotiations with Boeing over which aviation contractor will operate the planes were not finalized in time for the Hajj. Lufthansa Consulting is now pushing to delay receipt of the planes for as long as possible as they do not believe the lease is economically viable. Certainly, if Ariana fails Boeing will lose the lease and the contract for the eventual purchase of Boeing aircraft in 2009/2010. However, according to Lufthansa, Boeing demanded that the lease agreement include a USD 25 million insurance policy per leased plane to cover its losses should Ariana default and fail to return the planes. (Note: USD 25 million is the approximate depreciated value of older 757s. End note.) Thus, an insolvent Ariana would not cause a near term loss for Boeing. Still, Boeing contacted Post to express its increasing concern about the impact of Ariana's current troubles on its commitment to purchase Boeing jets. Atash is their principal interlocutor and the Afghan architect of the deal. Boeing worries that the deal will fall through if Atash leaves.

Comment

16. (C) Minister Qasimi is the youngest member of the Cabinet and, with his US BA-JD background, would seem to be exactly the type of qualified technocrat that President Karzai's government wants to keep in its line economic ministries. Still, the Minister is clearly nervous about his position. Problems with Hajj operations have fatally undone previous Transport Ministers (two were assassinated by angry pilgrims), and this year's Hajj flights are only half over. A Cabinet shuffle along with Parliamentary debate on the Cabinet in February seems likely. Whether the Minister will retain Karzai's support and whether he could gain the support of Parliament are open questions. In any case, the combination of a financially shaky Ariana, a new Minister and a new Ariana president has the potential to plunge the civil aviation sector into chaos and will delay Post's capacity building and airport management improvement plans. Minister Qasimi has proved more protectionist and less market-oriented than his western education would suggest. Post will continue to follow the situation closely and will engage any new Ministry or Ariana leadership early. If Minister Qasimi remains, Post will continue to push him to foster a more competitive aviation sector. End comment.
NORLAND